

STOCKHEAD



Chalice's Canadian deal a winner, says Patersons, as Victorian drilling delivers

Special Report: Australian broking firm Patersons Securities has given the thumbs-up to a \$13.1 million deal announced earlier this month by Chalice Gold Mines (ASX: CHN) to sell its Canadian gold projects to O3 Mining Inc., a spin-off of successful TSX-listed gold company Osisko Mining Inc.

Patersons analyst Xavier Braud, who has a Speculative Buy recommendation on Chalice, says the deal is another example of the company's "sound approach to transactions".

Chalice sold its stake in the Zara gold mine in Eritrea in 2012 for a total of US\$114 million – one of the more significant value-creating transactions in the junior gold sector at the time.

The new Canadian deal streamlines Chalice's current portfolio, further enhancing its already strong balance sheet (\$21.7 million cash at the end of the March 2019 quarter) and sharpening its focus on its highly prospective Victorian gold and newly-acquired WA nickel sulphide assets.

Braud sees significant potential upside in the O3 Mining deal, under which Chalice is receiving 3,092,784 shares in O3, which listed on the TSX last week.

"Chalice sold its Canadian asset to O3, in a scrip deal currently valued at \$13.1m (C\$12m)," Braud wrote.

"We want to insist on 'currently', as at the moment O3 is a shell which upon relisting on TSX will own over C\$100m of mineral properties and assets in the southern Abitibi Greenstone Belt of Quebec (spun out of Osisko Mining Inc.), including over 3Moz of gold in resources and reserves and a comfortable ~C\$18m cash in the bank (plus ~\$10m in cash equivalents)."

O3 listed on the TSXV last week, commencing trading with an estimated market capitalisation of around C\$160 million.

"We know the Canadian market has the reputation of having turned its back to exploration and mining, embracing marijuana and cryptocurrencies as speculative opportunities," Braud wrote.

"We believe that as bad as the Canadian market could be to the junior resources sector, a ~C\$160 market cap listing cannot go unnoticed, especially when the assets come from Osisko, which has been very successful selling gold mines to Agnico Eagle at a good premium in the past.

"Agnico Eagle has been on an acquisition path in the region too, trying to out muscle O3 for ground along strike from CHN currently (Alexandria Minerals TVX: AZX)."

Braud says O3 shares could be attractive enough to drive the price up and therefore make the Chalice transaction "an even better deal".

Chalice's shares will be escrowed for a four-month period, with the Perth-based company also retaining a 1% royalty on all metal produced on the 60% of the tenure which it owned 100%.



Victorian drilling outlines large-scale targets

With the Canadian deal cementing Chalice's focus on its flagship Pyramid Hill Project in Victoria's Bendigo Region, Braud says he believes the company's Victorian exploration campaign is "on the right track".

"Chalice has been continuously drilling its Victorian projects from November to June, chasing the extension of the Bendigo Zone structures under the Murray Basin sediments," he says.

Last week, the company announced what it describes as "highly promising" results from the initial drilling program at Pyramid Hill.

Initial coverage by reconnaissance air-core drilling has been designed to provide an initial shallow test of soil geochemical, gravity and structural targets to identify areas of anomalous gold and associated pathfinder elements, providing potential vectors to large mineralised gold systems.

Chalice said that several new strike-extensive mineralised trends have been intersected across shallow wide-spaced air-core drill lines completed in the ~1,500km² Muckleford area.

"The newly defined mineralised trends at the Karri, Ironbark and Beech Targets occur within highly weathered Castlemaine Group sediments directly beneath the Murray Basin cover interface, indicating the gold is from a primary bedrock source," Chalice said.

Chalice plans to commence tighter spaced in-fill and step-out drilling on these targets as soon as possible, with a likely restart of drilling in mid Q3 2019, where weather conditions, permitting and access constraints allow.

Chalice managing director Alex Dorsch said the new broad zones of gold and pathfinder elements are very significant given the reconnaissance nature of the initial phase of drilling.

“To have so many areas of gold anomalism defined so early is extremely promising,” he said.

“Importantly, other substantial gold discoveries undercover in this region, like Four Eagles and Tandarra, originated from similar low-level anomalous gold and pathfinder intercepts on initial wide-spaced AC drilling.

“This gives us confidence that our systematic approach to exploration at Pyramid Hill is the best way to vector towards mineralisation which could ultimately lead to a world-class high-grade gold discovery.

“There’s not many places left in Australia with the potential for a Tier-1 scale gold discovery under shallow cover – and this is one of them.”



Chalice Gold Mines drilling at Pyramid Hill in Victoria.

Nickel acquisition a positive as well

Patersons’ Braud is also upbeat on Chalice Gold’s recent nickel sulphide acquisition in the Kimberley region of WA.

“Chalice, true to its values of incubating projects and extracting value from exploration, has bought (very cheaply) its way into the West Kimberley region of Western Australia,” he said.

The suite of tenements acquired lie along strike from Buxton Resources’ ground.

“Recently Buxton brought IGO to the Kimberley through a farm-in, bringing attention and interest in the region,” Braud wrote. “We like the area but we know how season exploration in the Kimberley can be.

“The beauty of Chalice’s situation is that it has the Victorian projects to keep delivering when the Kimberley is inaccessible.”